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November 13, 2007

AGENDA ITEM 10

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Fiscal Year 2007-08 Mid-Year Budget Revisions
(First Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATION:**
- (1) The Committee accept the proposed California Public Employees' Retirement Systems' (CalPERS') Fiscal Year (FY) 2007-08 mid-year increase of \$10,113,000 and 49 positions for a total Administrative Budget of \$326,419,948 and 2,212 positions and recommend the Board of Administration approve the Budget as a first reading.
 - (2) The Committee accept the proposed CalPERS FY 2007-08 mid-year increase of \$18,369,000 to the Enterprise Projects Budget for a total budget of \$101,925,972 and recommend the Board of Administration approve the Budget as a first reading.
 - (3) The Committee recommend the Board of Administration approve the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the FY 2007-08 Budget Act, and to the Legislative Analyst's Office and the State and Consumer Services Agency.

IV. ANALYSIS:

The resource requests included in the FY 2007-08 Mid-Year Budget Revision are the result of a rigorous business planning and analysis process, which began in July 2007 with the development of concept papers.

CalPERS' Executive Leadership met several times to carefully prioritize and substantiate the resource requests. Consideration was given to the Enterprise's ability to fund critical needs within existing resources in the current fiscal year, the impact of postponing or reprioritizing workload, and the impact of deferring requests to the FY 2008-09 annual business and budget planning cycle. Consequently, the proposed mid-year budget revisions are based upon extensive planning and analysis, with the objective of matching enterprise priorities against the effective allocation of resources to achieve CalPERS' Strategic Plan goals in FY 2007-08.

Budget staff has thoroughly evaluated the budget revisions and recommended approval for only fully-justified proposals. These criteria support staff's efforts to ensure the most efficient and cost effective allocation of CalPERS' resources.

ADMINISTRATIVE BUDGET

The proposed mid-year FY 2007-08 Administrative Budget is \$326,419,948 and 2,212 positions. This reflects a 3.2 percent growth in the budget and an increase of 49 positions.

Review of Proposed Budget

The recommended budget revisions would result in an augmentation of the current budget of \$10.1 million. The proposed budget includes technical adjustments in addition to mid-year budget requests. The following table highlights the proposed mid-year budget.

Proposed Mid-Year FY 2007-08 Budget	
	Dollars (in Millions)
Current Budget	\$316.3
Technical Adjustments	1.9
Budget Requests	8.2
Revised FY 2007-08 Budget	\$326.4

Technical Adjustments

The proposed mid-year budget includes \$1.9 million in technical adjustments for general salary increases (GSIs), incentive compensation, health increases, and other items related to personal services and operating expenses.

Mid-Year Budget Requests

Staff recommends approving \$8.2 million and 49 positions to fund fully-justified budget requests. Of this amount, \$4.9 million is one-time funding.

The mid-year budget requests support CalPERS' Board-approved Strategic Plan goals as follows:

FY 2007-08 Mid-Year Budget Requests by Strategic Goal Categories	
	Dollars (in millions)
Enterprise – Goals I, II, III, IV	\$2.5
Pension – Goals V, VI, VII	3.7
Asset and Liability Management – Goals VIII, IX	1.3
Health – Goals X	0.7
Total	\$8.2

Attachments 1 and 2 provide a summary of the recommended requests.

Impact to the FY 2008-09 and Ongoing Baseline Budget

The proposed mid-year recommendations will increase the ongoing baseline budget in FY 2008-09. Taking into account the one-time items recommended as part of this mid-year proposal and the full year cost of the mid-year requests, the net impact in FY 2008-09 and ongoing is \$8.5 million.

Cost Allocation Update

Staff uses a cost allocation methodology that equitably distributes administrative program costs across CalPERS funds. The methodology classifies CalPERS divisions as *program* or *administrative*. Program division expenses are charged directly to funds they support, while administrative division expenses are allocated to each fund based on the level of support they provide to program divisions. The Fiscal Services Division annually surveys administrative divisions to determine their level of support over the past fiscal year. The survey results are then applied to the current year's budget and expenses to determine each fund's share of administrative costs. Staff completed this year's survey in October 2007. The survey results and the mid-year budget requests were used to calculate the recommended

appropriation levels for each Administrative Budget funding source as shown on Attachment 3.

ENTERPRISE PROJECTS BUDGET

Current Budget

The current budget for the Enterprise Projects is \$83,556,972, which is appropriated for the Pension System Resumption (PSR) project. The Enterprise Transition Management (ETM) Initiative is being added to the Enterprise Projects Budget for FY 2007-08.

Proposed Budget

The PSR project and the ETM Initiative are requesting a total of \$18.4 million to fund their projects, which is a 22 percent augmentation from the current year's allotment.

- The PSR project is requesting a total increase of \$8.2 million, as follows: \$4.4 million is to fund 58 temporary help positions to focus on identifying, analyzing and correcting existing CalPERS data problems now in preparation for the major data conversion effort that lies ahead; \$2.1 million in funding to backfill behind division staff that provide support to the PSR project; and \$1.7 million for consultant oversight, software licenses, document management and legal services.
- The ETM Initiative is requesting \$10.2 million for transition management services, oversight consultant services, training, and equipment. ETM will provide supportive staff services during the transition to a new business environment and the implementation of the PSR project.

In summary, the proposed adjustment to the Enterprise Projects Budget for FY 2007-08 is \$18.4 million, bringing the total budget to \$101,925,972.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic Plan. It is brought to the Finance Committee and the full Board of Administration to satisfy the following requirements: (1) obtain approval of FY 2007-08 mid-year budget revisions; and (2) fulfill Budget Act control language requirements.

VI. RESULTS/COSTS:

CalPERS' FY 2007-08 Administrative Budget of \$316,306,948 will increase by \$10,113,000, or 3.2 percent, to \$326,419,948. The Enterprise Projects Budget of \$83,556,972 will increase by \$18,369,000, or 22 percent, to \$101,925,972. The recommendations contained in this agenda item will take

Members of the Finance Committee
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effect upon the approval of the second reading by the Board of
Administration at its December 19, 2007 meeting.

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Attachments